



INFORMATION SHEET

Serving the People of California

WITHHOLDING FROM PENSIONS, ANNUITIES AND CERTAIN OTHER DEFERRED INCOME

Taxable Payments

Pensions, annuities, and other deferred income as described in Section 3405 of the Internal Revenue Code, are considered wages and subject to the withholding of personal income tax (PIT). However, a payee may elect NOT to have PIT withheld.

Payments to Out of State Residents

Federal law prohibits states from taxing on retirement income received by nonresident individuals after December 31, 1995. Therefore, no California income tax is to be withheld from pension recipients who reside outside of California.

To determine a payee's state of residence, the payer may rely on the most recent address of the payee contained in its business records.

Withholding Notice

The payer must provide to each payee, not earlier than six months before distribution of the first payment and not later than the time of the first payment, a notice with the following rights:

- (a) To elect not to have withholding apply to any payment or distribution and how to make that election.
- (b) To change or revoke an election and when it takes effect.

The election and any change or revocation of an election is effective for payments made more than thirty (30) days after the payer receives the election or revocation unless the payer elects to make it effective at an earlier date. For nonperiodic payments, the payee may make or revoke an election at any time before the distribution.

Withholding Elections

A payee may name the number of allowances, decide how much is to be withheld, or elect not to have withholding for periodic or nonperiodic payments. This is accomplished by filing with the payer a Withholding Certificate for Pension or Annuity Payments (DE 4P or W-4P) or a substitute form provided by the payer. Such choice remains in effect until revoked or changed by the payee by filing a new election form. However, the election on nonperiodic payments is on a payment-by-payment basis unless the payer decides to make the election permanent.

When PIT withholding is required, the payer may calculate the PIT under one of the methods shown below:

- (a) California Withholding Schedules.
- (b) A designated dollar amount as requested by the recipient.
- (c) Ten (10) percent of the amount of federal withholding computed pursuant to Section 3405 of the Internal Revenue Code.

If the payee has not filed a withholding form (DE 4P or W-4P) PIT withholding is required. The payer may calculate PIT under one of the following methods:

- (a) Using the California Withholding Schedules treating the payee as a married individual claiming three (3) allowances.
- (b) Ten (10) percent of the amount of federal withholding computed pursuant to Section 3405 of the Internal Revenue Code.

At the payer's option, withholding will not be required with respect to any designated distribution if the amount to be deducted and withheld is less than \$10 (ten dollars).

1099-R

At the end of the year, the payer shall give each individual a Form 1099-R showing the gross payments and the income tax withheld during the year.

Reporting of California Personal Income Tax Withheld

Payers are required to:

- (a) File a Quarterly Wage and Withholding Report (DE 6), listing the pension recipients social security account number, name, and PIT withheld on the DE 6 each quarter. Do not report the amount of the payment/distribution as either total subject wages or PIT wages.
- (b) File a Payroll Tax Deposit (DE 88) along with the PIT withheld from the pension payments. The payers' filing date is dependent on both their federal deposit schedule and the amount deposited (deposit threshold is \$400); however, the filing date shall be no later than the last day of the month following the end of the quarter. If

PIT is overpaid and overreported in a quarter, an adjustment may be made in the subsequent quarter. Deduct the overpayment from the next Payroll Tax Deposit and reduce the amount of PIT withheld from the individual(s) on the next DE 6. Only current year adjustments can be made in this manner.

- (c) File an Annual Reconciliation Return (DE 7).

Separate Reporting Account Number

The payer may request a separate account number to report California personal income tax withheld from the taxable portion of payments of pensions, annuities and certain other deferred income.

For more information on withholding from periodic and nonperiodic payments, please contact the nearest Employment Tax Customer Service Office. Telephone numbers are listed under the "State Government Offices" section of telephone directories under Employment Development Department.

Equal Opportunity Employer/Program. Auxiliary services and assistance available to persons with disabilities. TDD Users, contact the California Relay Service: 1-800-735-2929.